https://www.financial-planning.com/list/10-best-and-worst-bond-funds-of-the-past-3-years

10 best and worst bond funds of the past 3 years
By Rob Burgess
May 8, 2025 5:25 PM

For many advisors, bond funds are necessary and effective for diversifying investment portfolios.

High net worth investors can, and frequently do, use bond funds to obtain exposure to bond diversifying asset classes like mortgage-backed securities, high yield, floating rate, international and emerging markets, said Ryan Martin, vice president and portfolio manager at Rockland Trust in Mansfield, Massachusetts.

"It would be inefficient for implementation and portfolio maintenance to hold hundreds of different bonds across multiple asset classes," he said. "By purchasing bond funds, investors can more efficiently manage and adjust a bond portfolio's credit risk and duration."

However, with the recent tariff-induced volatility, some advisors have been thinking twice before jumping into bond funds. For those who are still interested, knowing the details can make all the difference in choosing the right one.

Bonds are still a valuable tool for many
One of the main benefits of bond funds is the ability to reduce overall portfolio volatility, especially when compared to stock funds, said Evan Luongo, financial advisor and founder of NoDa Wealth Management.

Bond funds continue to be crucial for maintaining portfolio stability, particularly for clients who need cash flow in the short term, said Mark Stancato, founder and lead advisor at VIP Wealth Advisors in Decatur, Georgia.

"By adhering to modern portfolio theory principles, high-quality bonds can mitigate volatility due to their low or negative correlation with stocks," he said.

High-quality bonds are a source of income, returns and diversification against riskier allocations like equities and downside protection, said Pramod Atluri, fixed income portfolio manager at Capital Group in Los Angeles. The extent of each has evolved over time, but in the low-rate environment prior to and just after the COVID pandemic began, the diversification role was more prominent, he said.

"Today, after a historic resetting in yields, bonds offer higher return potential with stronger diversification benefits," he said.

How tariffs affect bond funds
As for recent tariff headlines, Luongo said bond funds "held up well and proved

their worth in helping smooth out the bumps."

"I do not believe events like tariffs should fundamentally change anyone's view on the importance of bonds in a globally diversified portfolio," he said. "If you are someone who struggles with the inevitable ups and downs of the market, bonds can help make the ride more tolerable. And it is not just about tariffs. Whether it is tariffs today or something entirely different tomorrow, market surprises are constant."

Given that the tariff risk will equate to higher inflation, Steven Conners, founder and president of Conners Wealth Management in Scottsdale, Arizona, said his philosophy regarding bond funds has changed.

"Prior to this year, there was favorable progress on the underlying inflation trends," he said. "But with an ongoing trade war, with the market waiting in suspense for the next headline … I would prefer to be in treasury bills to protect the principal and obtain a net positive real rate of return for equity portfolios."

Looking for bond alternatives

With interest rate volatility and the risk of negative real returns in traditional bond funds, advisors may be looking for alternatives. Nathan Sebesta, owner of Access Wealth Strategies in Artesia, New Mexico, said in today's environment, his firm has been increasingly turning to tools like fixed annuities and cash value life insurance instead.

"These vehicles offer downside protection, tax advantages and competitive yield potential," he said. "While not a fit for every situation, they can provide the steady, predictable income and principal preservation that many investors seek from bonds, without the interest rate sensitivity."

When Thomas P. Leinwol, managing partner and financial planner at Upward Wealth Group in West Palm Beach, Florida, began working in the industry in 1991, it was at the Dreyfus mutual fund corporation, which was known for its bond funds. Initially, Leinwol had a positive view of bond funds. However, as time passed and interest rate environments changed, so did his perspective.

While bond funds continue to offer the advantages they have always provided — including diversification, professional management, liquidity, a consistent income stream and access to various bond markets that may otherwise be inaccessible to certain investors — Leinwol said "the disadvantages of investing in bond funds can be significant."

"Bond funds generally decline in value when interest rates rise, leading to substantial losses for many investors in balanced portfolios during 2023 when equities were also down," he said. "Unlike individual bonds, which return the principal at maturity, bond funds have no fixed maturity and do not guarantee the return of the principal. Furthermore, the fees and expenses associated with bond funds can considerably impact returns; management fees can erode gains,

especially in low-yield environments."

While bond funds do have a place in portfolios, Jason DeLorenzo, owner and principal at Ad Deum Funds in Chantilly, Virginia, said he rejects the idea that they are a hedge on equities.

"Bonds are their own asset and have closer relationships to the dollar than they do stocks. If there's a liquidity problem, bonds and stocks go down in unison," he said. So they have a place, but not as an equity hedge."

How to select the right bond fund

For those who are ready to jump into bond funds, the details of which to choose matter a great deal. Although recent tariff announcements have introduced some uncertainty, Stancato said his approach to selecting bond funds remains unchanged.

"This approach involves opting for shorter-duration funds, including municipal bonds for high earners and employing active management where needed," he said. "We assess bond funds based on their cost efficiency and level of diversification, prioritizing those with low expense ratios and extensive exposure across U.S. treasuries, corporate bonds, high-yield options and international markets. A solid bond fund proves its worth by holding the line when the rest of the portfolio is under fire."

It is important to know what kind of bond fund is being used, said Luongo, as "not all bond funds are created equal."

"A fund that appears to be low risk on the surface may actually carry higher risk if it includes a significant portion of high-yield bonds or has a longer duration," he said. "If the goal is stability, you want a fund made up of high-quality, shorter-duration bonds. Otherwise, it may not provide the steadying effect you are counting on when the stock market stumbles."

Scroll down the slideshow below for the 10 best-performing and 10 worst-performing bond funds in the U.S., based on their three-year annualized return through the end of March 2025. All data is from Morningstar Direct.

10 bond funds with the biggest 3-year gains

10 Artisan Global Unconstrained Instl (APHPX)

Fund size	**$298.03 million**
Expense ratio	**1.36%**
3-year annualized return	**9.13%**

9 North Square Preferred and Income Secs I (ORDNX)

Fund size	**$312.27 million**
Expense ratio	**0.97%**
3-year annualized return	**9.54%**

8 GMO Emerging Country Debt VI (GMOQX)

GMO

Fund size	**$2.26 billion**
Expense ratio	**0.48%**
3-year annualized return	**10.06%**

7 Eaton Vance Emerging Markets Dbt Opps R6 (EELDX)

Fund size	**$3.00 billion**
Expense ratio	**0.82%**
3-year annualized return	**10.10%**

6 Artisan Emerging Markets Debt Opp Instl (APHOX)

Fund size	**$94.05 million**
Expense ratio	**1.14%**
3-year annualized return	**11.00%**

5 Stone Ridge Hi Yld Reinsurance Risk Prml (SHRIX)

Fund size	**$3.55 billion**
Expense ratio	**1.76%**
3-year annualized return	**11.16%**

4 Franklin Emerging Market Debt Opps (FEMDX)

Fund size	**$94.06 million**
Expense ratio	**1.02%**
3-year annualized return	**11.28%**

3 FolioBeyond Alt Inc and Int Rt Hdg ETF (RISR)

Fund size	**$153.31 million**
Expense ratio	**1.23%**
3-year annualized return	**11.99%**

2 Strategy Shares Gold-Hedged Bond ETF (GOLY)

Fund size	**$32.07 million**
Expense ratio	**0.79%**
3-year annualized return	**13.95%**

1 Simplify Interest Rate Hedge ETF (PFIX)

Fund size	**$128.79 million**
Expense ratio	**0.50%**
3-year annualized return	**22.56%**

10 bond funds with the biggest 3-year losses

10 PIMCO Long-Term Real Return Instl (PRAIX)

PIMCO

Fund size	**$394.43 million**
Expense ratio	**2.28%**
3-year annualized return	**-7.64%**

9 Quantified Govt Inc Tact Investor (QGITX)

Fund size	**$43.38 million**
Expense ratio	**1.76%**
3-year annualized return	**-7.66%**

8 AlphaCentric Income Opportunities I (IOFIX)

Fund size	**$231.97 million**
Expense ratio	**1.74%**
3-year annualized return	**-7.72%**

7 Wasatch-Hoisington US Treasury (WHOSX)

Fund size	**$142.58 million**
Expense ratio	**0.73%**
3-year annualized return	**-8.28%**

6 Quantified Tactical Fixed Inc Investor (QFITX)

Fund size	**$10.45 million**
Expense ratio	**1.65%**
3-year annualized return	**-8.73%**

5 PIMCO Extended Duration Instl (PEDIX)

PIMCO

Fund size	**$389.64 million**
Expense ratio	**6.20%**
3-year annualized return	**-10.28%**

4 Vanguard Extended Duration Trs ETF (EDV)

Vanguard®

Fund size	**$4.73 billion**
Expense ratio	**0.05%**
3-year annualized return	**-10.43%**

3 DFA LTIP Institutional (DRXIX)

Dimensional

Fund size	**$351.10 million**
Expense ratio	**0.12%**
3-year annualized return	**-11.90%**

2 iShares 25+ Year Treasury STRIPS Bd ETF (GOVZ)

iShares® by BlackRock

Fund size	**$258.13 million**
Expense ratio	**0.10%**
3-year annualized return	**-12.71%**

1 PIMCO 25+ Year Zero Coupon US Trs ETF (ZROZ)

PIMCO

Fund size	**$1.48 billion**
Expense ratio	**0.15%**
3-year annualized return	**-12.75%**